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LEGISLATIVE HISTORY

Public Law 91-617

H.R. 15979

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INDEX AND SUMMARY OF H.R. 15979

- Feb. 18, 1970 Rep. Byrnes introduced H.R. 15979 which was referred to House Ways and Means Committee. Print of bill as introduced.
- May 6, 1970 House committee voted to report H.R. 15979.
- May 20, 1970 House committee reported <sup>w/o amdt.</sup> H.R. 15979. H. Rept. 91-1112  
Print of bill and report.
- July 6, 1970 House passed H.R. 15979 under suspension of Rules.
- July 7, 1970 H.R. 15979 referred to Senate Finance Committee.  
Print of bill as referred.
- Dec. 11, 1970 Senate committee voted to report H.R. 15979.
- Dec. 16, 1970 Senate committee reported without amendment H.R. 15979  
Print of bill and report.
- Dec. 18, 1970 Senate passed without amendment H.R. 15979.
- Dec. 31, 1970 Approved: P.L. 91-617









91<sup>ST</sup> CONGRESS  
2<sup>D</sup> SESSION

# H. R. 15979

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## IN THE HOUSE OF REPRESENTATIVES

FEBRUARY 18, 1970

Mr. BYRNES of Wisconsin introduced the following bill; which was referred to the Committee on Ways and Means

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## A BILL

To provide that the interest on certain insured loans sold out of the Agricultural Credit Insurance Fund shall be included in gross income.

1       *Be it enacted by the Senate and House of Representa-*  
2       *tives of the United States of America in Congress assembled,*  
3       That (a) section 306 (a) (1) of the Consolidated Farmers  
4       Home Administration Act of 1961, as amended (7 U.S.C.  
5       1926 (a) (1) ), is amended by adding at the end thereof the  
6       following new sentence: "When any loan made for a purpose  
7       specified in this paragraph is sold out of the Agricultural  
8       Credit Insurance Fund as an insured loan, the interest or  
9       other income thereon paid to an insured holder shall be in-

1 cluded in gross income for purposes of chapter 1 of the  
2 Internal Revenue Code of 1954.”

3 (b) The amendment made by subsection (a) shall  
4 apply to insured loans sold out of the Agricultural Credit  
5 Insurance Fund after the date of the enactment of this Act.

91ST CONGRESS  
2D Session

H. R. 15979

## A BILL

To provide that the interest on certain insured loans sold out of the Agricultural Credit Insurance Fund shall be included in gross income.

By Mr. BYRNES of Wisconsin

FEBRUARY 18, 1970

Referred to the Committee on Ways and Means





# DIGEST of Congressional Proceedings

## OF INTEREST TO THE DEPARTMENT OF AGRICULTURE

OFFICE OF BUDGET AND FINANCE  
(FOR INFORMATION ONLY;  
NOT TO BE QUOTED OR CITED)

For actions of May 6, 1970  
91st-2nd; No. 72

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HIGHLIGHTS: Senate committee reported special milk program bill. Senate committee reported bill to authorize production research under marketing agreements and orders. Sen. Smith, Ill., favored ceiling of \$20,000 subsidy payments per producer.

### HOUSE

1. LOANS; INTEREST. The Ways and Means Committee voted to report (but did not actually report) H. R. 15979 amended, to provide that the interest on certain insured loans sold out of the Agricultural Credit Insurance Fund shall be included in gross income. p. D451
2. IMPORT DUTIES; TAXATION; WORKING CAPITAL FUND. The Ways and Means Committee voted to report (but did not actually report) H. R. 2076 amended, relating to withholding, for purposes of the income tax imposed by certain cities, on the compensation of Federal employees; H. R. 8512 amended, to suspend for a temporary period the import duty on L-Dopa; H. R. 10517 amended, to amend certain provisions of the Internal Revenue Code of 1954 relating to distilled spirits; H. R. 14720, to continue until the close of June 20, 1973, the existing suspension of duties



on manganese ores (including ferruginous ore); H. R. 17241, to continue until the close of June 30, 1972, the existing suspension of duties on certain forms of copper; H. R. 9183 amended, to amend the Tariff Schedules of the U. S. to provide that imported articles which are exported and thereafter reimported to the U. S. for failure to meet sample or specifications shall, in certain instances, be entered free of duty upon such reimportation; and H. R. 16199, to establish a working capital fund for the Dept. of the Treasury. p. D451

3. FEES AND CHARGES. The conferees agreed to file a report on H. R. 14465, providing Federal assistance for expansion of the Nation's airports, and to amend the laws relative to the taxation of aviation facilities. p. D451
4. FOOD LABELING. Rep. Farbstein inserted an article in support of his proposed bill to require the open dating of packaged foods. pp. H3984-6

#### SENATE

5. MILK; MARKETING ORDERS; GUAM. The Agriculture and Forestry Committee reported the following bills: H. R. 5554, with amendment, to authorize funds to enable the Secretary of Agriculture to encourage milk consumption by children (S. Rept. No. 91-842); H. R. 14810, with amendments, to provide that marketing orders and agreements provide for production research (S. Rept. No. 91-843); and S. 2991, to extend authority for an agricultural program in Guam (S. Rept. 91-844). p. S6703
6. CHILD SAFETY. The Committee on Commerce reported S. 2162, with amendments, to provide standards for child resistant packaging of hazardous substances (S. Rept. No. 91-845). p. S6703. Sen. Moss commented on purposes of this bill. pp. S6703-4
7. ELECTRIFICATION; RECREATION; RECLAMATION. The Interior and Insular Affairs Committee voted to report (but did not actually report) the following bills: S. 940 amended, to prohibit hydro-electric projects on Middle Snake River below Hells Canyon Dam; S. 2208 amended, to authorize a study concerning establishment of Lake Tahoe national seashore; and H. R. 780, to authorize the Secretary of the Interior to maintain Ill. Valley division, Rogue River project, Oreg. pp. D447-8
8. FARM PAYMENTS. Sen. Smith, Ill., stated that it was time for the Federal Government to stop contributing to the trend towards bigness in agriculture and he proposed a crop subsidy limit of \$20,000 per producer. pp. S6726-8
9. HOUSING. Sen. Packwood spoke in favor of the Emergency Home Finance Act of 1970 and introduced reports showing the effect of the housing slow-down on employment in the Oreg. lumber industry. pp. S6729-31
10. ENVIRONMENT; POLLUTION. Sen. Moss inserted an address by the Asst. Secretary of Interior which expresses the view that the environment must be protected without discarding the economic advances associated with the use of pesticides and fertilizers. pp. S6742-4  
Sen. Harris remarked that the environmental crisis would not exist had the urban community followed the lead of the farmer in conservation practices and he inserted an article "Earth Day Observed By Farmers for Years." pp. S6748-9







# DIGEST of Congressional Proceedings

## OF INTEREST TO THE DEPARTMENT OF AGRICULTURE

OFFICE OF BUDGET AND FINANCE  
(FOR INFORMATION ONLY;  
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For actions of May 20, 1970  
91st-2nd; No. 81

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HIGHLIGHTS: Rep. Mahon inserted President's statement and Budget Bureau release on revised summary estimates of budget. Sen. Harris inserted explanation of unemployment insurance coverage of farm workers. Sen. Hart introduced and discussed economic poisons bill.

### HOUSE

1. TAXATION INCOME. The Ways and Means Committee reported H. R. 15979, providing that the interest on certain insured loans sold out of the agricultural credit insurance fund shall be included in gross income (H. Rept. No. 91-1112). p. H4632
2. MILITARY CONSTRUCTION. Passed with amendments H. R. 17604, authorizing certain construction at military installations. pp. H4572-4605

3. MERCHANT MARINE. Adopted the rule providing for consideration of H. R. 15424, amending the Merchant Marine Act, 1936. pp. H4604-5
4. SOCIAL SECURITY. Rep. Hagan expressed concern about a section of H. R. 17550, the Social Security Amendments of 1970, which proposes to cut medicaid costs. p. H4613
5. FOOD; CONSUMERS. Rep. Farbstein announced his launching of a campaign to make the Nation's food chains more responsible to the consumer. pp. H4618-9
6. FARM SUBSIDIES. Rep. Burton, Calif., inserted an article concerning subsidies paid to farmers in California. p. H4626
7. AUDITING. Received a report from the Comptroller General on the feasibility of using "should cost" concepts in Government procurement and auditing. To Committee on Government Operations. p. H4634
8. NATIONAL PARKS; RIVER BASINS. The Interior Committee voted to report (but did not actually report) H. R. 14114, improving the administration of the national park system, and H. R. 6715, with amendment, authorizing the construction, operation, and maintenance of the Narrows unit, Missouri River Basin project, Colorado. pp. D511-2
9. STOCKPILE. Disagreed to Senate amendments on H. R. 15833, authorizing disposal of acid grade fluorspar from the national stockpile, and appointed conferees. p. H4569

SENATE

10. FISHERIES. Committee on Commerce reported S. 3176 to provide a development program for tuna fishing in the central and western Pacific (S. Rept. 91-887). S7499
11. FARM WORKERS. Sen. Harris announced that he would oppose the conference report on H. R. 14705, the proposed employment Security Amendments of 1970, because of the reversal of the extension of unemployment compensation coverage to certain farm workers; he inserted a question and answer explanation of the coverage provisions. S7520-22
12. POLLUTION. Both Houses received the President's message on Oil Pollution (H. Doc. No. 91-340). S7497-98, H4571-2
13. ECONOMY. Sen. Mansfield inserted two speeches which report the negative influences of the war in Southeast Asia on the economy. S7487-92  
Sen. Proxmire inserted a newspaper article which points out that the administration appears to be underestimating the size of the coming deficits. S7531-32
14. ENVIRONMENT, CONSERVATION. Sen. Mansfield inserted a speech by James N. Smith, Director of Conservation Services, which discusses the pollution problems of Mont. S7486-87

## TAX TREATMENT OF INTEREST ON FARMERS HOME ADMINISTRATION INSURED LOANS

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MAY 20, 1970.—Committed to the Committee of the Whole House on the State of  
the Union and ordered to be printed

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Mr. MILLS, from the Committee on Ways and Means,  
submitted the following

### REPORT

[To accompany H.R. 15979]

The Committee on Ways and Means, to whom was referred the bill (H.R. 15979) to provide that the interest on certain insured loans sold out of the Agricultural Credit Insurance Fund shall be included in gross income, having considered the same, report favorably thereon without amendment, and recommend that the bill do pass.

### I. SUMMARY

The Consolidated Farmers Home Administration Act of 1961 authorizes the Farmers Home Administration to make loans both to local governmental units and to private bodies for such purposes as conservation, land use, water, etc., and to resell this debt to private parties as federally insured loans. The Internal Revenue Service has ruled that in those cases where the security originates with a local governmental unit the interest or other income paid on it continues to be exempt from Federal tax even after it is resold as a loan insured by the Federal Government. Because the Federal Government has concluded that the exemption of interest on these loans is costly and has inequitable results, it in recent years has been reluctant to make and then resell these loans on an insured basis to provide credit assistance to local governmental units. H.R. 15979 overcomes this problem by providing (in an amendment to the Consolidated Farmers Home Administration Act) that interest or other income paid to an insured holder on an insured loan sold out of the Agricultural Credit Insurance Fund is for income tax purposes to be included in gross income of the recipient of the interest. This is to be effective with respect to



sales of insured loans by the Federal Government after the date of enactment of this bill.

This bill is favored by the Treasury Department and the Department of Agriculture and is reported unanimously by your committee.

## II. GENERAL STATEMENT

Under present law (sec. 306(a)(1) of the Consolidated Farmers Home Administration Act of 1961 (7 U.S.C. 1926(a)(1))), the Secretary of Agriculture is authorized to make conservation, land use, water, waste disposal, and recreational loans both to governmental units and to private bodies. These loans may be made either directly to the governmental unit or private body or may be made by providing insurance for these loans. Where the insured approach is used, the Farmers Home Administration makes a loan to the unit or body and receives in return a note or bond bearing an interest rate which by law cannot exceed 5 percent. The FHA then resells the note to private lenders, insuring the bond's principal and interest, and pays out of its own funds the cost of any differential between the interest rate at which the insured securities are sold and the 5 percent or lower interest rate specified by the securities which were acquired by FHA.

Direct lending, of course, has an immediate impact, to the full extent of the loan, on Federal budget outlays. Therefore, the volume of loans which could be made directly under the Consolidated Farmers Home Administration Act has been limited. At one time FHA supplemented these direct loans by reselling packages of these loans on an insured basis to private institutional investors. However, it has been held by the Internal Revenue Service that bonds of local governmental units which are acquired by the Farmers Home Administration and then resold on an insured basis continue to be tax exempt in the hands of the lender (Rev. Rul. 58-452). The result of this has been that in recent years FHA has greatly curtailed its program of insuring and reselling loans to local governmental units. This action was taken because the Federal Government concluded that federally guaranteed tax-exempt obligations involve a needlessly costly and inequitable method of financing. Studies by the Treasury Department and the Bureau of the Budget have indicated that it is costly to the Federal Government to use federally insured tax-exempt obligations to finance loans to local governmental units. The studies indicate that while the tax exemption makes it possible to resell the insured loans at a lower interest rate than would otherwise be possible, the loss of tax revenue resulting from the exemption more than offsets the benefits of the lower interest payments.

Additionally, it was concluded that the sale of bonds which are both tax exempt and insured by the Federal Government would give these bonds a competitive advantage over both State and local securities which are tax exempt but not federally insured, and also Federal securities which are subject to Federal income tax. As a result, the sale of such bonds could well have increased interest rates on other bonds, particularly those issued by States and localities and hampered their ability to finance other vital public needs.

H.R. 15979 eliminates these problems by providing that interest on federally insured loans sold out of the Agricultural Credit Insurance Fund after the date of enactment of the bill is for tax purposes to be included in the gross income of the holder of the debt. The effect of this

action is to make it practical to use federally insured loans to finance credit assistance to local governmental units for the purposes specified in the Consolidated Farmers Home Administration Act. This will be beneficial to the local governments since it should increase substantially the volume of these local governmental loans which the Federal Government will be able to acquire and to resell on an insured basis. At the same time the bill also will reduce the need for appropriations for direct Federal loans for the purposes specified in the Consolidated Farmers Home Administration Act since greater dependence can be placed on loans which are resold to private holders on an insured basis.

The proposed legislation will not increase interest rates to the local communities involved in the federally insured loans since these communities can continue to obtain loans at present law interest rates of not over 5 percent, which are below the current market rates on good quality, long-term, tax-exempt bonds. Moreover, the bill does not in any way interfere with the right of local governments to issue tax-exempt obligations.

### III. CHANGES IN EXISTING LAW MADE BY THE BILL, AS REPORTED

In compliance with clause 3 of rule XIII of the Rules of the House of Representatives, changes in existing law made by the bill, as reported, are shown as follows (new matter is printed in italic, existing law in which no change is proposed is shown in roman) :

#### SECTION 306(a)(1) OF THE CONSOLIDATED FARMERS HOME ADMINISTRATION ACT OF 1961

SEC. 306. (a) (1) The Secretary is also authorized to make or insure loans to associations, including corporations not operated for profit, and public and quasi-public agencies to provide for the application or establishment of soil conservation practices, shifts in land use, the conservation, development, use, and control of water, and the installation or improvement of drainage or waste disposal facilities, and recreational developments, all primarily serving farmers, ranchers, farm tenants, farm laborers, and other rural residents, and to furnish financial assistance or other aid in planning projects for such purposes. *When any loan made for a purpose specified in this paragraph is sold out of the Agricultural Credit Insurance Fund as an insured loan, the interest or other income thereon paid to an insured holder shall be included in gross income for purposes of chapter 1 of the Internal Revenue Code of 1954.*





Union Calendar No. 520

91<sup>ST</sup> CONGRESS  
2<sup>D</sup> SESSION

# H. R. 15979

[Report No. 91-1112]

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## IN THE HOUSE OF REPRESENTATIVES

FEBRUARY 18, 1970

Mr. BYRNES of Wisconsin introduced the following bill; which was referred to the Committee on Ways and Means

MAY 20, 1970

Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

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## A BILL

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2       *tives of the United States of America in Congress assembled,*  
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4       Home Administration Act of 1961, as amended (7 U.S.C.  
5       1926 (a) (1) ), is amended by adding at the end thereof the  
6       following new sentence: "When any loan made for a purpose  
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8       Credit Insurance Fund as an insured loan, the interest or  
9       other income thereon paid to an insured holder shall be in-

1 cluded in gross income for purposes of chapter 1 of the  
 2 Internal Revenue Code of 1954.”

3 (b) The amendment made by subsection (a) shall  
 4 apply to the insured loans sold out of the Agricultural Credit  
 5 Insurance Fund after the date of the enactment of this Act.

Union Calendar No. 520

91<sup>ST</sup> CONGRESS  
 2<sup>D</sup> Session

**H. R. 15979**

[Report No. 91-1112]

## **A BILL**

To provide that the interest on certain insured  
 loans sold out of the Agricultural Credit  
 Insurance Fund shall be included in gross  
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By Mr. BYRNES of Wisconsin

FEBRUARY 18, 1970

Referred to the Committee on Ways and Means

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# **DIGEST** of Congressional Proceedings

## OF INTEREST TO THE DEPARTMENT OF AGRICULTURE

OFFICE OF BUDGET AND FINANCE  
(FOR INFORMATION ONLY;  
NOT TO BE QUOTED OR CITED)

For actions of July 6, 1970  
91st-2nd; No.112

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Almonds.....1	Food stamps.....4	Social Security.....15
Apples.....1	Legislative program.....9	Speech.....10
Bills passed.....1	Loans.....1,11	Taxation.....1
Commodities.....12	Marketing orders.....1	Veterinary medicine.....7
Cost-sharing.....1	Marketing research.....1	Water.....6
Economy.....8	Minerals.....17	Watersheds.....3,5
Employment.....13	Nutrition.....16	Wilderness.....2
Environment.....6		

**HIGHLIGHTS:** House passed bills providing for:  
  increasing states participating in marketing orders for apples;  
  cost-sharing in RC & D projects;  
  clarifying the custom slaughtering provisions;  
  permitting marketing orders applicable to apples;  
  authorizing marketing research for almonds;  
  providing that interest on certain FHA insured loans be included in gross income.  
Rep. Schwengel inserted Secretary Hardin's speech in Des Moines.  
Sen. McGovern submitted amendment to agricultural appropriations bill for food stamp program.

HOUSE

1. BILLS PASSED.

~~Sent to the President:~~

~~S. 1455, increasing states participating in marketing orders for apples.~~

~~p. H6337~~

~~S. 2598, cost-sharing in R&D projects. pp. H6337-8~~

~~S. 2592, custom slaughtering bill. pp. H6355-61~~

Sent to the Senate:

HR 15979, taxation on certain FHA insured loans. pp. H6343-7

S. 1456, with amendment, marketing orders applicable to apples for paid advertising. pp. H6338-9

HR 13978, with amendment, marketing research and promotion projects for almonds. p. H6339

2. WILDERNESS. An Interior and Insular Affairs Committee subcommittee approved for full committee:

HR 16822, designating lands in the Craters of the Moon National Monument as wilderness, and

HR 13232, designating lands in the Petrified National Park as wilderness. p. D721

3. WATERSHEDS. Received two letters from the Budget Bureau transmitting plans for watersheds; one to the Committee on Agriculture and one to the Committee on Public Works. p. H6380 (See item 5 under Senate)

SENATE

4. AGRICULTURAL APPROPRIATIONS AMENDMENT; FOOD STAMPS. Sen. McGovern submitted Amendment No. 763 to HR 17923, Agriculture Appropriations bill for F 1971, to fully fund the Food Stamp program at the \$2 billion authorized last Fall. p. S10550

5. WATERSHED; FHA. Received letter from the Acting Director, BOB, conveying plans for works of improvement on the following:

To Committee on Agriculture & Forestry: Simon Run Watershed, Kans.; West Upper Maple River, Mich.; Moorhead Bayou, Miss.; Upper Bay River, N.C.; Starkweather Watershed, N. Dak.; Grand Prairie Watershed, Oreg.; Poplar River, Wisc.; and Spring Brook, Wisc.

To Committee on Public Works: Upper Ouachita River, Ark.; Crooked Arroyo Watershed, Colo.; Clear Creek, Ill.; Fish Stream Watershed, Maine; West Branch Westfield River, Mass.; East Upper Maple River, Mich.; Bahala Creek, Miss.; Newlan Creek, Mont.; McKay Rock Creek, Oreg. pp. S10547-48

Received letter from Comptroller General transmitting Farmers Home Admin. report on the savings available to the Government by timing advances of loan and grant funds with actual cash requirements. p. S10548

6. WATER; ENVIRONMENT; POLLUTION. Sen. Jackson gave notice of July 8 final hearing on S. 3354, his bill to amend the Water Resources Planning Act to establish a national land use policy. p. S10551

7. VETERINARY MEDICINE. Sen. Mondale praised the contribution of veterinary medicine to the health of man and inserted a letter from the Dean of the Minnesota College of V.M. which expresses concern over the Administration attitude towards veterinary medicine. pp. S10554-55



confused with the change of venue provision in 28 U.S.C. 1404 permitting transfer of civil actions "for the convenience of the parties and witnesses, in the interest of justice." The latter standard implies questions of court congestion, speedy trials, and burden on the parties which are not relevant to determining whether an antitrust case should have direct review in the Supreme Court. The phrase "general public importance in the administration of justice," would seem to imply issues of significant public, not private, importance in the development of substantive antitrust law, or in the enforcement of the antitrust laws.

The Supreme Court will finally determine what standard to apply since, under section 2(b) of the bill it is given the power to deny, in its discretion, the direct appeal and remand the case to the court of appeals. It would only seem reasonable, however, that the Court's discretion to deny direct appeals under section 2(b) should, because of the importance of effective enforcement of the antitrust laws, be narrower than its discretion to grant or deny a petition for a writ of certiorari under 28 U.S.C. 1254(1).

In addition to the reform which I have outlined above, H.R. 12807 modernizes another provision of the Expediting Act. Presently, the law permits the Attorney General in a civil antitrust case in which the United States is the complainant to file a certificate stating that the case is of general public importance. Upon the filing of such a certificate, a three-judge court is required to be empaneled; the case is to be heard at the earliest possible date and to be in every way expedited. In light of enormous case backlogs that clog most Federal court dockets, the effect of convening a three-judge court to try a Government antitrust case can only be disruptive. While, perhaps, necessary when the antitrust laws were first enacted, the continued existence of this provision cannot be justified. Indeed, the Department of Justice has utilized this procedure only seven times in nearly 30 years and only once in the last decade.

Thus the legislation I propose discards the three-judge court provision and requires that civil antitrust cases brought by the United States be tried by a single Federal judge. However, H.R. 12807 still permits the Attorney General to file a certificate that the case is of general public importance and so require the case to be expedited in every way.

Similar provisions relating to direct appeals to the Supreme Court and to three-judge courts in cases brought by the Government under the Interstate Commerce Act and the Communications Act of 1934 are also repealed by H.R. 12807. See *Ambassador, Inc. v. United States* (1945); see also H.R. 16479, 91st Congress, second session.

Last, H.R. 12807 clarifies the law with respect to appealability of interlocutory orders in civil antitrust cases brought by the Government. In virtually every anti-merger action brought by the United States a preliminary injunction is sought to prevent the acquisition from being consummated until a final determination of the legality of the trans-

action is obtained. Whether interlocutory review in the court of appeals of district court orders granting, denying, or modifying preliminary injunctions may be achieved is unclear. Compare *United States v. Ingersoll Rand*, 320 F. 2d 509 (3d Cir. 1963) with *United States v. F.M.C. Corp.*, 321 F. 2d 534 (9th Cir.), application for temporary injunction denied, 84 S. Ct. 4 (1963) (Goldberg, J., in chambers); see also *Brown Shoe Co. v. United States*, 370 U.S. 294 at 305, n. 9 (1962); *United States v. California Co-operative Canneries*, 279 U.S. 553 (1929).

Regardless of what interpretation has been placed on the Expediting Act in this regard, interlocutory review of orders granting, modifying, or denying preliminary injunctions is very desirable. As Attorney General Mitchell stated in his letter, dated July 14, 1969, to the Speaker with respect to this matter:

Such review is generally limited to the outset of a case and would not cause undue delay or disruption. The district court's discretion on injunctions can be reviewed, in substantial part separately from a determination of the ultimate merits of the case and court of appeals review is not, therefore, inconsistent with subsequent direct Supreme Court review of the final judgment in the event of certification. Moreover, the immediate impact of injunctive orders, whether the injunction is granted or denied, calls for appellate review as a matter of fairness. The public interest that possibly unlawful mergers not be consummated until their validity is adjudicated, in addition to the obvious desire of private business to avoid a costly and complicated unscrambling, would, in our view, benefit from making the provisions of section 1292(a)(1) title 28 of the United States Code, available in Expediting Act cases."

It should be made clear that the interlocutory review sanctioned here is limited only to review of orders under 28 U.S.C. 1292(a)(1) dealing with orders granting, denying, or modifying injunctions and not to any other interlocutory orders.

Mr. Speaker, in the last Congress I introduced similar legislation to make our antitrust laws more responsive to contemporary demands and I join now with the Nixon administration in their effort to improve the quality of justice available in the Federal courts by urging prompt action on this important measure.

(Mr. McCULLOCH asked and was given permission to revise and extend his remarks.)

Mr. McCULLOCH. Mr. Speaker, I yield such time as he may consume to the gentleman from Ohio (Mr. TAFT).

(Mr. TAFT asked and was given permission to revise and extend his remarks.)

Mr. TAFT. Mr. Speaker, I am happy to express my support for this legislation and to urge its passage by the House.

It would provide needed amendments to the longstanding Expediting Act applying to antitrust cases. As one who has had some experience as an attorney in quite a number of antitrust cases, I believe that the changes proposed will bring about simpler and quicker disposition of antitrust cases, while providing the Government and the private litigants prompt and more effective remedies.

The direct appeal to the Supreme

Court would be available where justified and the three-judge trial court which has been rarely used, would be eliminated.

Most important, I believe, is the proposed change to make it possible to get quick appeals on temporary orders necessary to prevent proposed mergers without holding up the progress of the balance of the case.

As a matter of practical experience, I ran into this a number of times, and I think this change is much needed and overdue.

Mr. HUNGATE. Mr. Speaker, I have no further requests for time.

The SPEAKER pro tempore (Mr. ALBERT). The question is on the motion of the gentleman from Missouri that the House suspend the rules and pass the bill, H.R. 12807, as amended.

The question was taken; and (two-thirds having voted in favor thereof) the rules were suspended and the bill, as amended, was passed.

A motion to reconsider was laid on the table.

#### APPOINTMENT OF CONFEREES ON H.R. 16595, NATIONAL SCIENCE FOUNDATION AUTHORIZATION BILL

Mr. MILLER of California. Mr. Speaker, I ask unanimous consent to take from the Speaker's table the bill (H.R. 16595) to authorize appropriations for activities of the National Science Foundation, and for other purposes, with Senate amendments thereto, disagree to the Senate amendments, and request a conference with the Senate thereon.

The SPEAKER pro tempore. Is there objection to the request of the gentleman from California? The Chair hears none, and, without objection, appoints the following conferees: Messrs. MILLER of California, DANNARIO, DAVIS of Georgia, FULTON of Pennsylvania, and MOSHER.

There was no objection.

#### TAX TREATMENT OF INTEREST ON FARMERS HOME ADMINISTRATION INSURED LOANS

Mr. WATTS. Mr. Speaker, I move to suspend the rules and pass the bill (H.R. 15979) to provide that the interest on certain insured loans sold out of the Agricultural Credit Insurance Fund shall be included in gross income.

The Clerk read as follows:

H.R. 15979

A bill to provide that the interest on certain insured loans sold out of the Agricultural Credit Insurance Fund shall be included in gross income

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That (a) section 306(a)(1) of the Consolidated Farmers Home Administration Act of 1961, as amended (7 U.S.C. 1926(a)(1)), is amended by adding at the end thereof the following new sentence: "When any loan made for a purpose specified in this paragraph is sold out of the Agricultural Credit Insurance Fund as an insured loan, the interest or other income thereon paid to an insured holder shall be included in gross income for purposes of chapter 1 of the Internal Revenue Code of 1954."



(b) The amendment made by subsection (a) shall apply to the insured loans sold out of the Agricultural Credit Insurance Fund after the date of the enactment of this Act.

The SPEAKER pro tempore. Is a second demanded?

Mr. BYRNES of Wisconsin. Mr. Speaker, I demand a second.

The SPEAKER pro tempore. Without objection, a second will be considered as ordered.

There was no objection.

Mr. WATTS. Mr. Speaker, I yield myself such time as I may consume.

Mr. Speaker, the purpose of the pending bill, which was introduced by our colleague on the Committee on Ways and Means, the Honorable JOHN W. BYRNES of Wisconsin, is to provide that the interest on certain insured loans sold out of the Agricultural Credit Insurance Fund shall be included in gross income.

The Consolidated Farmers Home Administration Act of 1961 authorizes the Farmers Home Administration to make loans both to local governmental units and to private bodies for such purposes as conservation, land use, water, and so forth, and to resell this debt to private parties as federally insured loans. The Internal Revenue Service has ruled that in those cases where the security originates with a local governmental unit the interest or other income paid on it continues to be exempt from Federal tax even after it is resold as a loan insured by the Federal Government. Because the Federal Government has concluded that the exemption of interest on these loans is costly and has inequitable results, it in recent years has been reluctant to make and then resell these loans on an insured basis to provide credit assistance to local governmental units. As Congressman BYRNES advised the House when he introduced this legislation on February 18, 1970, with the exception of \$50 million of bonds sold in the fall of 1968, no tax-exempt bonds have been sold out of the Agricultural Credit Insurance Fund since July of 1967, and because of this, construction of water and sewer treatment facilities urgently needed by smaller communities is being delayed.

H.R. 15979 would overcome this problem by providing that interest or other income paid to an insured holder on an insured loan out of the Agricultural Credit Insurance Fund is for income tax purposes to be included in gross income of the recipient of the interest. The effect of this action will be to make it practical to use federally insured loans to finance credit assistance to local governmental units for the purposes specified in the Consolidated Farmers Home Administration Act, and we can move forward in meeting the vital needs of small communities with respect to clean water and waste disposal.

This legislation is favored by the Department of the Treasury, and the Committee on Ways and Means unanimously recommends its enactment. I may also say, Mr. Speaker, that among the organizations supporting the pending bill are the American Farm Bureau Federation and the National Rural Electric Cooperative Association.

Mr. BYRNES of Wisconsin. Mr. Speaker, yield myself 5 minutes.

Mr. Speaker, this bill is vitally necessary if we are to help our small rural communities proceed with water and sewer and waste treatment facilities.

We provided a program in 1965 under the Consolidated Farmers Home Administration Act to give assistance to small rural communities of fewer than 5,500 inhabitants, to help them borrow money for sewer and waste treatment facilities. At that time the Agriculture Committee noted that the establishment of adequate water and waste disposal systems was one of the crying needs of rural America. The committee stated in its report:

City dwellers take these facilities for granted. All of their lives they have merely turned on a tap or flushed a toilet in a system provided by the community, which made water appear or waste disappear. They forget—or probably do not even realize—that no such magic takes place in the rural areas.

If a rural resident wants these, he must provide them for himself at great expense and often with frustrating results of having systems that just do not quite work.

We adopted this program, the general approach being to permit the Farmers Home Administration to market bonds they purchase from rural communities. By permitting these funds to be revolved, additional funds are made available to meet the water and sewer needs of these rural communities.

Since these are loans to local communities, interest on the note or bond given by the local community is tax exempt under the Internal Revenue Code. If the Farmers Home Administration sells the bond subject to a Federal guarantee of principal and interest, this particular note would enjoy a higher preference than a U.S. Treasury bond, because the person buying it would not have to pay tax on the interest earned.

In view of this, the Treasury and the administration adopted a recommendation of the President's Committee on Federal Credit Programs against the Federal Government guaranteeing tax-exempt bonds. As a result, we no longer have a revolving fund for assisting small rural communities to finance vitally needed water and sewer facilities. As of April 30, we had over 2,000 applications from rural communities pending and we had over 4,000 communities that had submitted requests and were told that the funds were simply not available.

The purpose of this bill to remove this obstacle by making the interest on the federally guaranteed obligation taxable. When a loan is made to these rural communities under this program and the Federal Government resells that obligation to the public subject to a Federal guarantee, the holder will pay taxes on the interest received. The idea is that the guarantee of the U.S. Government has converted it into a new type of obligation. It is also clear that the cost to the Federal Government will be less if we remove the tax exemption from these bonds when they are resold, since the increased subsidy required by selling them on a taxable basis should be less than the additional tax revenue derived. All we are doing here is simply removing

an obstacle to a program Congress has enacted to meet the great demand that exists and the great need that exists in our rural communities for waste treatment and water facilities.

Let me make it clear—because it seems there are some people who misunderstand it—that this does not affect the capacity of the municipalities to issue tax exempt securities. Any community that goes into the general market and sells its bonds to get money to build a waste treatment facility can do so, and that interest will continue to be tax exempt. The interest will be taxable only when the obligation is sold to the Farmers Home Administration and then resold by the Federal Government under the plan that Congress set up in 1965 to help these small communities that do not have the same access to the money markets that the bigger cities have.

Mr. HALL. Mr. Speaker, will the gentleman yield?

Mr. BYRNES of Wisconsin. I yield to the gentleman from Missouri.

(Mr. HALL asked and was given permission to revise and extend his remarks.)

Mr. HALL. Mr. Speaker, I appreciate the distinguished gentleman yielding and I appreciate the gentleman's explanation.

Do I understand therefrom that when these bonds are rolled over that they remain tax exempt unless they are sold back or dealt in by the FHA itself?

Mr. BYRNES of Wisconsin. No; what happens is this: When a small community of 5,500 or less cannot float a bond issue at 5 percent or less, the FHA will make a loan, if they have the money, to that community and take the community's note or bond. At the present time they just hold this bond since they cannot sell it to the public, and the inability to resolve these obligations has dried up the source of funds for these communities.

Mr. HALL. Mr. Speaker, if the distinguished gentleman will yield further, that of course is tax exempt?

Mr. BYRNES of Wisconsin. They would be tax exempt. The interest would be tax exempt to the holder, but there is a new element added when the obligation is resold by the FHA subject to a guarantee by the U.S. Government of both the principal and the interest in the same market that general Treasury obligations are sold.

We are saying that, when it goes through that process it takes on the nature of a Federal obligation which does not bear interest that is tax exempt. That is what this bill does.

Mr. HALL. Mr. Speaker, if the gentleman will yield further, and I thank the gentleman for his explanation, I have two additional questions. No. 1, why is this type security, alone in this particular agency the only one affected, although it is now available to the purchaser on the market and, No. 2, in his opinion as the distinguished ranking minority member of the Committee on Ways and Means, will this subsequently be applied to other agencies' tax-exempt bonds?



Mr. BYRNES of Wisconsin. This is completely aside, I would say to my colleague from Missouri, from the right of the municipality to go into the market and sell its tax-exempt bonds and get the lower interest rate. We are saying when the obligation carries on the back of the note the endorsement of the United States then it no longer has those characteristics of a municipal bond that entitled it to tax exemption. The note in this case takes on the nature of a Federal Government obligation which is not tax exempt. By doing this we make it possible for FHA to sell these bonds in the market. At the present time these bonds are not sold in the market because they would have a higher status than U.S. Government bonds which are not tax exempt.

Mr. HALL. The gentleman from Missouri full well understands the backing of the full faith and credit of the United States and I believe the purchaser would appreciate that. But let us take a farmers' cooperative bank bond which now turns over at something like 7.62 percent. It is not backed by the good faith and confidence of the United States of America. Would it later be anticipated that this exemption—and, incidentally, I know that they are now not tax exempt—but would it be, in the opinion of the gentleman from Wisconsin, true that this failure to waive the exemption would apply to like cases that are tax exempt at the present time?

Mr. BYRNES of Wisconsin. No, I think it would not. I think there is a complete misunderstanding that this is a foot in the door to take away the tax-exempt status of municipal bonds. It is not.

This bill is directed at bonds sold by the Farmers Home Administration because they do have a Federal guarantee. That is all we are trying to do.

Mr. HALL. Mr. Speaker, I think this is a very important legislative record to make, and I appreciate the gentleman's response.

Mr. BYRNES of Wisconsin. Mr. Speaker, I appreciate the gentleman's comments.

Mr. TAFT. Mr. Speaker, will the gentleman yield?

Mr. BYRNES of Wisconsin. I yield to the gentleman from Ohio.

Mr. TAFT. Mr. Speaker, I thank the gentleman for yielding.

The questions I had to ask of the gentleman are basically the same as those asked by the gentleman from Missouri; however, I would like to carry on the discussion a little further, and I would like to ask the gentleman if he regards this bill in any extent as a precedent, and if not, why not?

And why can we not extend this to the other agencies? Why will we not come in next year and do something like this for the other agencies? And why have we not treated similarly all municipal bonds and other subdivisions of Government's bonds so that they might be built into such a guarantee system, even though I understand their tax problems. But in 1969 this very question was faced by Ways and Means and this House and was turned down.

Mr. BYRNES of Wisconsin. I cannot say what is going to be done in the future as far as the general area of tax exempt interest is concerned. I cannot tell you what Congress will do 2 years from now, or 3 or 4 years from now.

The SPEAKER pro tempore The time of the gentleman has again expired.

Mr. BYRNES of Wisconsin. Mr. Speaker, I yield myself 3 additional minutes.

This certainly is not a foot in the door because that would relate to municipal bonds in general. The municipal bonds that this bill is concerned with are related to this specific program and take on the nature of a Federal bond by reason of the Federal guarantee underlying their sale by the FHA to the public. This, to me, is entirely different from the issue of whether or not interest on municipal bonds should continue to be tax exempt.

I think they both have to stand on their own feet. They are not interrelated.

Mr. TAFT. Mr. Speaker, I thank the gentleman.

Mr. FISH. Mr. Speaker, will the gentleman yield?

Mr. BYRNES of Wisconsin. I yield to the gentleman from New York.

Mr. FISH. Mr. Speaker, I would like to commend the gentleman from Wisconsin for his initiative in this legislation. I come from a village, Millbrook, N.Y., of under 5,500 people which sorely needs and has been deprived of funds for sewage service.

Mr. BYRNES of Wisconsin. We thought we were doing something for these communities back in 1965, but the obstacles this bill will remove have thwarted what the Congress intended to do. All we are trying to do now is make the program work again.

Mr. FISH. I commend the gentleman, and I certainly hope the other body will act promptly on this needed legislation.

The SPEAKER. The time of the gentleman has again expired.

Mr. WATTS. Mr. Speaker, I have no further requests for time on this side.

Mr. BYRNES of Wisconsin. Mr. Speaker, I yield 5 minutes to the gentleman from Ohio (Mr. BROWN).

Mr. SKUBITZ. Mr. Speaker, will the gentleman yield?

Mr. BROWN of Ohio. I yield to the gentleman from Kansas.

(Mr. SKUBITZ asked and was given permission to revise and extend his remarks.)

Mr. SKUBITZ. Mr. Speaker, I rise in support of H.R. 15979—which is similar to a bill I introduced, H.R. 4607, January 27, 1969. This bill provides that the interest on certain insured loans sold out of the Agricultural Insurance Fund shall be included in gross income.

The proposed legislation would permit the use of insured funds to finance water and waste disposal projects for public bodies. Investors purchasing insured bonds from the Farmers Home Administration would pay Federal income tax on the interest earned on such bonds.

The proposed legislation would in no way affect the right of public bodies to issue tax-exempt bonds. The legislation will greatly enhance the ability of the Farmers Home Administration to finance

water and waste disposal facilities for rural public bodies.

Under the proposed legislation, the program would be funded through the sale of insured notes to private investors and thus not be dependent on appropriations.

Mr. Speaker, I urge passage of this bill. This is the only way that rural America is going to carry out its water programs. Certainly the farmers of this country are entitled to a few luxuries, such as drinking water in their homes and indoor plumbing.

Mr. BROWN of Ohio. Mr. Speaker, there are several issues involved in this bill which I think should have been more broadly debated. There can be little argument with the desirability of the good works to be performed by the FHA loans covered by this act. But I also feel a fundamental question is the desirability of a legislative fiat which empowers an agency to change securities which are currently exempt from Federal taxes into taxable ones. Such a power is a most significant alteration in the relationship between the Federal Government and the governments of the several States and their subdivisions. I do not think that such an alteration is wisely extended on a program-by-program basis, if, indeed, it should be or can be extended at all.

But, aside from the legal difficulties with this selective abrogation of the doctrine of reciprocal tax immunity, I am most distressed by the financing mechanism that H.R. 15979 makes possible. I believe that the "loan brokering" which FHA plans to undertake, in an effort to fund an expenditure program outside the budget, represents yet one more attempt for an "easy way out" of the financial mess into which the Federal Government has progressively gotten itself. But this "easy way" may make the road longer and tougher in the end.

Certainly the distinction between repackaging direct loans and selling them as assets and the previously attempted device of selling loan participation certificates is a very fine one indeed. Moreover, the whole concept of financing deficit spending through selling agency securities, is questionable and very contrary to a restrictive credit policy we supposedly are following. It is only when we consider all these devices together that we have an accurate picture of the Federal demand for credit. Often—as last year—the demands for credit by Federal agencies and by the Treasury are moving in different directions. But when the two are added together, they have invariably shown an overall deficit and an intensifying of pressures on the credit market. Most discouraging of all, these agency demands are greatest when the markets are least able to absorb their securities.

All this is particularly lamentable, because such end runs around the Federal debt ceiling not only confuse almost everyone as to the extent of Federal credit demands, but also they have shown themselves to be a very expensive means of financing. As the Committee on Government Operations recently re-



ported in "Marketing or Federal Obligations—Participation Certificates"—House Report No. 91-772—asset sales such as participation certificates and agency financing always cost more than general Treasury borrowings. The interest rates are higher—one-half to 1 percent higher—and sales commissions and fees must be paid to private agents and dealers. But of greater consequence than the immediate costs of selling agency debt instruments and assets is the impact which they have on the credit markets.

The notion has somehow been perpetuated that by replacing tax-exempt obligations with taxable, insured obligations, such as the FHA wants to do, the Treasury is going to save money. Yet, the sad experience with participation certificates should have taught us that such tortured extensions of Federal credit are extremely expensive and can be largely self-defeating. An ever-growing pressure exerted by greater Federal credit demands, punctuated by new devices supposedly to lessen the impact on a particular sector, simply inflates the rates that must be paid on all obligations. And the competition is especially strong among the U.S. Government securities—those of Treasury and its agencies—as they force up one another's interest rates. The individual investor is increasingly pulled into the market when money is so scarce. Individuals withdraw their funds from the savings institutions. This disintermediation occasions a ratcheting upward of interest rates, brings on a new fringe of unsatisfied borrowing demands and, consequently, additional demands for a "Federal cushion" to insulate another hapless would-be borrower. And the above cycle is ready to be repeated.

My point is that our absorption with the impact on the budget of a particular program can blind us to the fact that it is the entire economy with which we should be concerned. The restraint must be total Federal monetary restraint—the Federal agencies' borrowings and asset sales included.

It is a perilous form of accountancy which leads us to the conclusion that the Federal Government can preempt the pool of credit by the strength of its guarantees and subsidies and yet somehow be held not accountable because these financial transactions do not appear in the budget. The practice can be subject to abuse and subverts the stewardship we must exercise for the entire economy. Who knows what we owe or have pledged the Government's good faith to repay in case of default—or how much Uncle Sam is really borrowing at any one time. The answers: No one knows. I cannot support measures which paper over fiscal irresponsibility by shucking the problem off to the capital markets and which, accordingly, add to the financial woes of the homeowner, State and local governments and small businessmen. Alternatives—straight-forward and sound ones—must be found so that priorities may be examined and chosen on a more rational basis.

The article follows:

[From the Wall Street Journal, May 18, 1970]  
APPRAISAL OF CURRENT TRENDS IN BUSINESS AND FINANCE

Now that it has so little hope left for scoring a budget surplus any time soon, the Nixon Administration is understandably backing away from its earlier emphasis on the need for one. What was heresy a few months ago suddenly is doctrine: A few billion dollars of deficit can't make much real difference to an economy approaching the trillion-dollar mark, and shouldn't matter much psychologically.

The financial impact of a return to deficit is something else, officials admit, because the Treasury would have to cover it by extra borrowing. They are concerned that a deficit of, say, \$3 billion would require the Treasury to divert about that much money away from competing borrowers in the marketplace. The concern is certainly valid, as far as it goes. But it is becoming clear that the annual arithmetic of the Federal budget only begins to hint at the Government's total financial impact.

One reason (which money market participants can overlook only at their own risk) is that the Treasury has temporary seasonal needs to borrow even in years in which the budget ends up balanced. And these borrowings can far overshadow whatever turns out to be the much more widely publicized net amount. The last fiscal year ended in mid-1969 with a \$3.2 billion surplus, but in the July-December first half the Treasury nonetheless had to borrow \$11.4 billion new cash.

In the first half of the fiscal year which will start July 1, the Treasury will have to raise between \$13 billion and \$15 billion new cash estimates Henry Kaufman of Salomon Brothers & Hutzler in New York, the major Government bond house. However, temporary those borrowings will prove to be, such a sum would roughly equal a whole year's net borrowings by all U.S. business corporations on the bond market.

In those same six months, besides the new borrowings, the maturing of an immense amount of securities will confront the Government. Presumably these must be replaced, so the Treasury faces the chore of coming up with attractive substitutes for about \$12 billion of existing issues now in private hands.

The less-noticed part of its refunding task is even more massive. Every Monday, the Treasury routinely replaces \$3 billion of maturing three-month and six-month bills, and once a month it auctions substitutes for another \$1.5 billion of expiring nine-month and one year bills. If it continues to borrow a little extra each time, this would mean some \$90 billion of churning in the coming half-year, as much money as all our state and local governments net on the bond markets during a decade.

That the Treasury's financing pace long will remain frenzied is almost guaranteed, moreover, by the awesome shortening of the length of the public debt. A World War I law forbids the Treasury to pay more than 4¼% interest on long-term marketable bonds, so the inflated interest rates of the Vietnam era have limited its new borrowings to shorter issues, those of no more than seven years' maturity.

Here's what the politically immovable ceiling has done. (The 1970 figures are as of March.)

(Dollars in billion)		
	Average maturity, marketable debt	Amount due in 1 year
1965.....	5 years, 4 months.....	\$87.6
1967.....	4 years, 7 months.....	89.6
1969.....	4 years.....	103.9
1970.....	3 years, 6 months.....	121.3

Many analysts believe the short securities are inherently inflationary, being so liquid that holders tend to behave as if they had that much cash in the bank. Moreover, most any Treasury financing these days can compel the Federal Reserve Board to suddenly pump out new money, as was demonstrated anew this month; when the Cambodian incursion undermined market as well as campus morale, the Fed had to buy up huge hatches of old Treasury issues to make room in private portfolios for the new ones.

Even so, the Federal Government's financing demands might seem more or less manageable—if they were fully summed up by the budget and were coped with solely by the Treasury. However, that's not the case, as Congress has chartered a whole flotilla of Federal agencies which are empowered to do their own fund-raising. Some are inside the budget but others are out (on grounds that they are privately owned), and even the authorities are having trouble fathoming their impact.

A run through the roster readily shows why. Ranging from the Federal National Mortgage Association with its \$11.7 billion debt down to the District of Columbia Stadium Fund with \$20 million, the Treasury lists 11 Federal entities with about \$44 billion of their own securities outstanding. The others: Commodity Credit Corp., Export-Import Bank, Federal Housing Administration, Government National Mortgage Association, Tennessee Valley Authority, Banks for Cooperatives, Federal Home Loan Banks, Federal Intermediate Credit Banks and Federal Land Banks.

Their borrowing can cause confusing countercurrents in Federal finance. For instance, while the Treasury whittled down its marketable debt outstanding by \$1 billion in 1969, the Federal National Mortgage Association alone flooded out an extra \$4 billion.

If various Nixon Administration and Congressional proposals come to pass, the number of agencies free to forage for themselves in the capital market will expand further: The postal corporation, the Environmental Financing Authority (antipollution) and the National Development Bank (for housing) could easily generate billions of dollars worth of additional securities favored with some form of Federal status. Already, the new "mortgage-backed securities" which private lenders can issue come complete with a Government guarantee.

One day last week, Assistant Treasury Secretary Murray L. Weidenbaum reported that an Administration panel is "taking a fresh look at some of the implications for financial markets," and for the economy, of all this activity.

What the panelists will come up with isn't clear, but one thing is: It won't be a day too soon.

(Mr. BROWN of Ohio asked and was given permission to revise and extend his remarks and include extraneous matter.)

Mr. SEBELIUS. Mr. Speaker, I appreciate this opportunity to discuss H.R. 15979, legislation that I cosponsored to provide that interest on certain insured loans sold out of Agricultural Credit Insurance Fund shall be included in gross income for tax purposes.

Since 1967, the Treasury Department and the Bureau of the Budget have decreed that FHA cannot make insured loans to rural public bodies. It was determined that it cost the Government more to buy and sell tax-exempt bonds than to handle taxable bonds. Since insured funds have been available only to nonprofit corporations, a principle source



of revenue for rural water district development has been eliminated.

Although many rural water and waste disposal systems have been aided by FHA grants, in Kansas alone, 31 water and waste disposal projects are stalled due to a lack of funds.

This legislation directly affects the quality of life in our rural and small town areas. This legislation would directly benefit the 35,000 towns under 5,500 population that lack water systems and the 44,000 towns that lack waste disposal facilities.

Without adequate water and sewage facilities, small towns have little chance of attracting new industry and will continue to see their citizens leave for our Nation's overcrowded cities.

Recently, the Department of Economics at Kansas State University studied the economic impact of a rural water district in Kansas. The report prepared by Mr. Patrick E. Smythe, extension economist, states:

Based on information provided by members who returned questionnaires, the economic impact of this water district on the area for a five-year period totaled \$1,194,156 or an average increase of \$238,831 per year . . . Thus, a \$125,000 investment resulted in an economic impact of 191 per cent to the area each year.

Secretary of Agriculture Clifford M. Hardin has stated:

It is not enough that we think in terms of improving conditions and opportunity for the people living today in rural America, and thereby stemming the flow of people to the cities. We must do much more. We must make it a matter of urgent national policy that we create in, and around, the smaller cities and towns sufficiently good employment opportunity and living environments that large numbers of families will choose to rear their children there.

Development and completion of water systems and waste disposal systems made possible by enactment of H.R. 15979 will be a major step toward developing and revitalizing our communities in rural and small town areas.

Population estimates project a 100-million increase in the next 30 years. The population increase of 54 million in the last 20 years has all taken place in our urban areas. I urge passage of H.R. 15979 as a major step toward hastening the rural migration back to our rural and small town areas, and toward revitalizing the economy of rural and small town America.

Mr. RANDALL. Mr. Speaker, I rise in enthusiastic support of H.R. 15979, a measure to provide that the interest or other income paid to an insured holder on an insured loan sold out of the agriculture credit insurance fund is for income tax purposes to be included in the gross income of the recipient of the interest.

While this bill is considered under suspension of the rules, it is a very important matter. In fact, it is so important that failure to pass this bill can delay many rural communities that do not have adequate water systems and also many rural communities that are without adequate sewer facilities.

My own bill, H.R. 16706, is identical in every particular to H.R. 15979 being considered today. I salute the gentleman from Wisconsin (Mr. BYRNES), a member of the Ways and Means Committee, for his excellent research which led to the preparation of and introduction of H.R. 15979.

About as simple an explanation of the situation as I can provide is that without this bill most of the funding for rural water districts and sewer facilities for smaller communities would have to come from appropriations, if grants and loans to these smaller communities and rural areas were to continue.

The objective of this bill is to get the maximum amount of mileage out of the minimum amount of appropriated moneys to update water and sewer systems in America. The tax being imposed by this bill is merely an equalizing measure. It simply says that income derived from private investors in FHA water and sewer bonds should be taxable at the same rate as other income. In so doing, we will establish a fund that will replenish itself.

It is difficult in these times to support almost any kind of tax increase, but the purpose here is not really a tax increase but a tax equalizing measure. Moreover, it is for a most unusual cause surrounded by exceptionally meritorious circumstances.

#### GENERAL LEAVE TO EXTEND

Mr. BYRNES of Wisconsin. Mr. Speaker, I ask unanimous consent that all Members may be permitted to extend their remarks on the bill H.R. 15979.

The SPEAKER pro tempore. Is there objection to the request of the gentleman from Wisconsin?

There was no objection.

The SPEAKER pro tempore. The question is on the motion of the gentleman from Kentucky that the House suspend the rules and pass the bill H.R. 15979.

The question was taken; and (two-thirds having voted in favor thereof) the rules were suspended and the bill was passed.

A motion to reconsider was laid on the table.

#### DUTY TREATMENT OF CERTAIN PREVIOUSLY EXPORTED AIRCRAFT

Mr. CORMAN. Mr. Speaker, I move to suspend the rules and pass the bill (H.R. 17068) to amend the Tariff Schedules of the United States to provide for a partial exemption from duty for certain transportation vehicles manufactured or produced in the United States with the use of foreign components imported under temporary importation bond, as amended.

The Clerk read as follows:

H.R. 17068

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That (a) schedule 8, part 1A, of the Tariff Schedules of the United States (19 U.S.C. 1202) is amended by striking out item 804.00 and inserting in lieu thereof the following:*

804.10...	Articles previously exported from the United States which—except for headnote 1 of this subpart—would qualify for free entry under one of the foregoing items and are not otherwise free of duty: Aircraft exported from the United States with benefit of drawback or item 864.05...	A duty equal to the duty upon the importation of like articles not previously exported, but in no case in excess of the sum of (a) any customs drawback proved to have been allowed upon such exportation, and (b) the duty which would have been payable on any articles used in the manufacture or production of such aircraft had they not been entered and exported under item 864.05.	A duty equal to the duty upon the importation of like articles not previously exported, but in no case in excess of the sum of (a) any customs drawback proved to have been allowed upon such exportation, and (b) the duty which would have been payable on any articles used in the manufacture or production of such aircraft had they not been entered and exported under item 864.05.
804.20...	Other, except articles excluded by headnote 1(c) of this subpart.	A duty (in lieu of any other duty or tax) equal to the sum of any duty and internal-revenue tax imposed upon the importation of like articles not previously exported, but in no case in excess of the sum of (a) any customs drawback proved to have been allowed upon such exportation of the article, and (b) any internal-revenue tax imposed, at the time such article is entered, upon the importation of like articles not previously exported.	A duty (in lieu of any other duty or tax) equal to the sum of any duty and internal-revenue tax imposed upon the importation of like articles not previously exported, but in no case in excess of the sum of (a) any customs drawback proved to have been allowed upon such exportation of the article, and (b) any internal-revenue tax imposed, at the time such article is entered, upon the importation of like articles not previously exported."

(b) Headnotes 1 and 2, schedule 8, part 1A of such Schedules are each amended by striking out "item 804.00" and inserting in lieu thereof "items 804.10 and 804.20".

SEC. 2. The amendments made by the first section of this Act shall apply to articles entered, or withdrawn from warehouse, for consumption on or after the date of the enactment of this Act.

The SPEAKER pro tempore. Is a second demanded?

Mr. BYRNES of Wisconsin. Mr. Speaker, I demand a second.



The SPEAKER pro tempore. Without objection, a second will be considered as ordered.

There was no objection.

Mr. CORMAN. Mr. Speaker, I yield myself such time as I may use.

(Mr. CORMAN asked and was given permission to revise and extend his remarks.)

Mr. CORMAN. Mr. Speaker, the purpose of H.R. 17068, as reported by the Committee on Ways and Means is to amend the Tariff Schedules of the United States (TSUS) to provide for a partial exemption from duty for returned American aircraft which were manufactured in the United States with the use of foreign components which had previously been admitted free of duty under bond. Under the bill as reported, the returned American aircraft would in general be subject to a duty equal to the amount of the duty which would have been payable on the foreign components had they not been entered free of duty under bond.

Under present customs practice, articles produced in the United States with the use of foreign articles and exported with the benefit of drawback may be imported under item 804.00 as American goods returned upon repayment of the drawback. However, under present customs practice, if the foreign articles used in producing a finished product in the United States were entered under a temporary duty-free bond arrangement, the entire value of the finished product after having been exported and reentered is dutiable on the basis of its total value rather than the value of the foreign components used in its production.

The committee is informed that in the manufacture of aircraft in the United States, it is fairly common practice to use some materials from abroad. Export sales of aircraft produced in the United States are significant, and normally, the duty paid on foreign articles used in the manufacture of such aircraft is subject to the drawback procedure under which 99 percent of the duty is refunded upon export of the completed aircraft. In some instances, however, foreign articles for aircraft have been entered under tariff item 864.05 free of duty under bond. Such temporary duty-free entry arrangement is apparently preferred by some manufacturers since no large amount of capital is committed to duty payment for the period between the original entry of the foreign component and the drawback of the duty upon exportation of the aircraft.

Over the years, both provisions, that is, drawback and temporary importation bond, have been used with respect to eliminating the cost of U.S. duty on foreign articles used in the domestic manufacture of aircraft which will subsequently be sold abroad. Your committee is informed that trade-in allowance for old aircraft is an important factor in obtaining contracts for sales of new aircraft abroad. Further, competition in the sales of new aircraft in world markets is rising. Under these circumstances, the dutiable status of the old aircraft being traded in and returned to the United States becomes important.

Your committee is of the opinion that in view of the growing importance of the trade in of aircraft to sales of aircraft

abroad, it is important to provide similar customs treatment to aircraft produced in the United States which are sold abroad and returned whether the drawback or temporary import bond procedure was used with respect to foreign components. H.R. 17068, as amended, would provide such customs treatment for aircraft.

H.R. 17068 would also make certain technical amendments in the provisions of item 804.00 for the sake of clarity and such changes reflect existing customs practices.

As introduced, the bill would have applied to "vehicles" aircraft, and boats" manufactured with the use of foreign components imported under bond. In view of the lack of information on the applicability of the provisions to articles other than aircraft, the bill was amended by the Committee on Ways and Means to apply only to aircraft. In addition, H.R. 17068 is amended so that the new provision is to apply only to entries of aircraft made on or after the date of enactment of the bill.

No objection to the enactment of the bill as amended was received from any interested executive branch agency, and the bill is favorably reported by the Committee on Ways and Means.

Mr. GROSS. Mr. Speaker, will the gentleman yield?

Mr. CORMAN. I am glad to yield to the gentleman from Iowa.

Mr. GROSS. Who will be the principal beneficiaries of this legislation?

Mr. CORMAN. The major airframe manufacturers, who have in the past had portions of their airplane imported from abroad, assembled in the aircraft, and then they have sold those aircraft abroad, and who are now in a position to sell new aircraft abroad and take in, in trade, those older airplanes which prior to this time had been exported. It is, though much larger in size, somewhat like trading an old car in for a new car.

The equity here lies in the fact that the manufacturer in the initial production had two methods of avoiding paying duty on foreign products which will be sold abroad. He could either pay the duty and get it back, or assemble the aircraft in what is the equivalent of a bonded warehouse. As it turns out now, if he paid the duty on the foreign components and got it back, he has an advantage. If he merely imported the components in bond and used them in the assembly of the aircraft and then exported it, he would have to pay the duty on the total value of the aircraft and not just on the value of the foreign components.

Mr. GROSS. Is it proposed to do the same thing with respect to foreign automobiles?

Mr. CORMAN. No, I am not aware of the fact that a similar circumstance prevails. I am not at all aware that there are partial assemblies coming from abroad, being imported, and being made a part of an American automobile, which is subsequently then sent abroad. A rather substantial amount of money per airplane is involved, and it puts the American airframe industry at a disadvantage with respect to how much they can allow for a trade-in airplane and so, for example, a 747 or an L-1011, as com-

pared to the purchaser abroad buying from a British, Russian, or Japanese company.

Mr. GROSS. I thank the gentleman.

Mr. COHELAN. Mr. Speaker, will the gentleman yield?

Mr. CORMAN. I yield to my colleague from California.

Mr. COHELAN. I thank the gentleman for yielding to me. I would like to take this opportunity to thank him and the distinguished members of his committee for bringing this matter to the floor.

I should like to associate myself with the remarks of the gentleman and urge passage of this legislation.

(Mr. COHELAN asked and was given permission to revise and extend his remarks.)

Mr. HALL. Mr. Speaker, will the gentleman yield?

Mr. CORMAN. I yield to the gentleman from Missouri.

Mr. HALL. Mr. Speaker, would the gentleman explain to the Members of the House whether or not this takes into due consideration Government furnished equipment, for example, engines, and, second, where parts of planes are provided in part by a foreign national government or a manufacturer located in a sovereign foreign country which receives that Government's subsidies?

Mr. CORMAN. No, sir, this does not involve that. Let us take the manufacture of an airplane. Ten years ago possibly the tail assembly was manufactured in Canada. That tail assembly came in and was attached to an aircraft made in the United States. There would be no consideration as to how that was made. But if that airplane when finished was to be sold abroad, there would have to be a duty paid just on the foreign tail assembly. This is just to treat the manufacturers the same regardless of which method is used when the tail assembly is imported. As we said, at that moment 10 years ago he did not know this issue was going to arise. If he took it in under bond and paid no duty, it was treated differently than if he brought it in and paid a duty. Of course, it would be dutiable if it was to be sold in the United States, and duty would not be refunded. So it involves only those planes which are ultimately to be sold in a foreign market.

Mr. HALL. If the gentleman will yield further, I understand by the gentleman's analogy and know the CL-144 and others, but would the same thing apply, for instance, to a Rolls Royce engine or a U.S. patented Canadair—Pratt and Whitney—engine that was used in assembly, either in a bonded warehouse or otherwise with duty withheld in the United States, if it was then brought back for parts or reclamation, then would this bill apply only to that.

As the gentleman knows, part of my inquiry is based on the fact that I have been concerned regarding the gradually deteriorating engine capability of the United States reduced now to one and one-half manufacturers, and I can explain that further if need be, the one-half being on the part of a subsidy by a friendly nation—as I said, the example of the tail assembly the gentleman gave would be equally applicable to engines







91<sup>ST</sup> CONGRESS  
2<sup>D</sup> SESSION

# H. R. 15979

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IN THE SENATE OF THE UNITED STATES

JULY 7, 1970

Read twice and referred to the Committee on Finance

---

## AN ACT

To provide that the interest on certain insured loans sold out of the Agricultural Credit Insurance Fund shall be included in gross income.

1        *Be it enacted by the Senate and House of Representa-*  
2        *tives of the United States of America in Congress assembled,*  
3        That (a) section 306 (a) (1) of the Consolidated Farmers  
4        Home Administration Act of 1961, as amended (7 U.S.C.  
5        1926 (a) (1) ), is amended by adding at the end thereof the  
6        following new sentence: "When any loan made for a purpose  
7        specified in this paragraph is sold out of the Agricultural  
8        Credit Insurance Fund as an insured loan, the interest or  
9        other income thereon paid to an insured holder shall be in-

91<sup>ST</sup> CONGRESS  
2<sup>D</sup> SESSION

**H. R. 15979**

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## **AN ACT**

---

To provide that the interest on certain insured loans sold out of the Agricultural Credit Insurance Fund shall be included in gross income.

---

JULY 7, 1970

Read twice and referred to the Committee on Finance







# **DIGEST** of Congressional Proceedings

## OF INTEREST TO THE DEPARTMENT OF AGRICULTURE

OFFICE OF BUDGET AND FINANCE  
(FOR INFORMATION ONLY;  
NOT TO BE QUOTED OR CITED)

For actions of December 11, 1970  
91st-2nd; No. 199

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HIGHLIGHTS: House passed egg inspection bill.  
Rep. Zwach urged 100% parity.  
Senate agreed to House amendments to Potato Research and Promotion  
act, with amendment granting authority for milk promotion.

### HOUSE

#### 1. FLOOR ACTION.

Passed H.R. 19888, providing for the inspection of eggs and egg products,  
as reported. pp. H11547-52

Passed without amendment H.R. 19868, proposed estate, excise, and gift tax  
adjustment bill. pp. H11554-66

Disagreed to the Senate amendment to H.J. Res. 1117, establishing a Joint  
Committee on the Environment. Conference requested and conferees appointed.  
p. H11545

2. COMMITTEE ACTION.

Conferees filed reports on:

H.R. 18515, FY 71 Labor and HEW appropriation bill (H. Rept. 91-1729); and  
H.R. 17755, FY 71 Department of Transportation appropriation bill (H.  
Rept. 91-1730). p. H11601

Committee on Government Operations filed a report "The Role and Effectiveness  
of Federal Advisory Committees" (H. Rept. 91-1731). p. H11601

Conferees agreed to file a report on S. 3619, the disaster relief and  
assistance bill. p. D1266

3. LEGISLATIVE PROGRAM. Among the bills for consideration the week of December 14  
will be H.R. 18582, the food stamp amendments, and H.R. 19567, the Inter-  
national Coffee Agreement. pp. H11594-5

4. NUTRITION. Rep. Price, Texas, included a treatise discussing the need for  
increasing the nutritional value of the "traditional American diet".  
pp. H11598-600

5. OUTLAYS. Received a report from OMB on the operation of section 501 of the  
Second Supplemental Appropriations Act, 1970, which establishes a limitation  
on budget outlays for fiscal year 1971; to the Committee on Appropriations  
(H. Doc. 91-426). p. H11601

6. POLLUTION. Received a letter from the Environmental Protection Agency trans-  
mitting a notice of the Agency's intention to submit a report on an  
"investigation and study of the feasibility of all methods of financing the  
cost of preventing, controlling, and abating water pollution, other than  
methods authorized by existing law"; to the Committee on Public Works.  
p. H11601

7. ADJOURNED until Monday, Dec. 14. p. H11601

SENATE

8. POTATO RESEARCH. Agreed to House amendment to S. 1181, proposed Potato Research  
& Promotion Act, with an amendment substituting the language of S. 4560, to  
provide authority for promotion programs for milk, tomatoes, and potatoes.  
pp. S20021-6

9. APPROPRIATIONS. Committee on Appropriations in executive session ordered  
favorably reported with amendments H.R. 19928, FY 1971 supplemental  
appropriations. p. S20032

10. INSURED LOANS. Committee on Finance voted to report (but did not actually report)  
H.R. 15979, providing that interest on certain insured loans sold out of the  
Agricultural Credit Insurance Fund shall be subject to income tax. p. D1265





# **DIGEST** of Congressional Proceedings

## OF INTEREST TO THE DEPARTMENT OF AGRICULTURE

OFFICE OF BUDGET AND FINANCE  
(FOR INFORMATION ONLY;  
NOT TO BE QUOTED OR CITED)

For actions of December 16, 1970  
91st-2nd; No. 202

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Air quality.....14	Flue-cured tobacco.....11	Revenue sharing.....15
Burley tobacco.....12	Food stamps.....10	Rivers, harbors, and flood control.....6
Child resistant packaging.....1	Foreign assistance.....11	Thicket National Park.....2
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Environment.....8	Legislation.....9	
	National Park.....2	
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HIGHLIGHTS: Both Houses cleared for the President bills affecting Hazardous Substances and Water Carrier Mixing Bill.  
Conferees in executive session agreed to file report on Rivers and Harbors--Flood Control.  
House passed H. R. 18582 to amend the Food Stamp Act of 1964.  
House Agriculture Committee ordered reported favorably bill to extend marketing quota time on burley tobacco.



SENATE

1. HAZARDOUS SUBSTANCES; WATER CARRIER MIXING RULE. Both Houses agreed to conference reports on S. 2162, to authorize the establishment of standards for the child resistant packaging of hazardous substances; and HR 8298, eliminating certain restrictions relating to water carriers of bulk commodities. Both bills now go to the President. pp. S20246-7; H11784-5 S20250-1; H11785-6
2. NATIONAL PARK. Passed with committee amendment S. 4, to establish the Big Thicket National Park in Texas. pp. S20306-7
3. 92nd CONGRESS. Passed without amendment H.J. Res. 1416, to provide that January 21, 1971, be the date for the convening of the 92nd Congress. p. S20282
4. ECONOMIC REPORT. Passed without amendment H.J. Res. 1417, to provide that the President transmit his Economic Report to Congress not later than February 1, 1971, and that the Joint Economic Committee file its report thereon with the House not later than March 1, 1971. This bill now goes to the President. p. S20282
5. WATER & WASTE FACILITY LOANS. Committee on Finance reported without amendment H.R. 15979, to provide that the interest on certain insured loans sold out of the Agricultural Credit Insurance Fund shall be included in gross income (S. Rept. No. 91-1469). S20373
6. RIVERS, HARBORS, & FLOOD CONTROL. Conferees in executive session agreed to file conference report on H.R. 19877, omnibus rivers and harbors and flood control authorizations bill. p. D1287
7. EMPLOYMENT AND MANPOWER ACT, VETO. Received Veto Message from the President on S. 3867, providing assistance to the States for employment and training pp. S20348-9
8. ENVIRONMENT. Sen. Goldwater expressed concern for the quality of the environment and placed in the Record several articles by Director Pecora of the U.S. Geological Survey. pp. S20391-4
9. LEGISLATION. Sen. Mansfield announced two-shift sessions beginning Dec. 17 and reviewed position of bills subject to filibuster. p. S20308

HOUSE

10. FOOD STAMPS. Passed H.R. 18582, to amend the Food Stamp Act of 1964, but failed to consider committee amendment. pp. H11815-7; H11818-73



TAX TREATMENT OF INTEREST ON FARMERS HOME  
ADMINISTRATION INSURED LOANS

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DECEMBER 16 (legislative day, DECEMBER 15), 1970.—Ordered to be printed

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Mr. LONG, from the Committee on Finance,  
submitted the following

## REPORT

[To accompany H.R. 15979]

The Committee on Finance, to which was referred the bill (H.R. 15979) to provide that the interest on certain insured loans sold out of the Agricultural Credit Insurance Fund shall be included in gross income, having considered the same, reports favorably thereon without amendment and recommends that the bill do pass.

## I. SUMMARY

The Consolidated Farmers Home Administration Act of 1961 authorizes the Farmers Home Administration to make loans both to local governmental units and to private bodies for such purposes as conservation, land use, water, etc., and to resell this debt to private parties as federally insured loans. The Internal Revenue Service has ruled that in those cases where the security originates with a local governmental unit the interest or other income paid on it continues to be exempt from Federal tax even after it is resold as a loan insured by the Federal Government. Because the Federal Government has concluded that the exemption of interest on these loans is costly and has inequitable results, it in recent years has been reluctant to make and then resell these loans on an insured basis to provide credit assistance to local governmental units. H.R. 15979 overcomes this problem by providing (in an amendment to the Consolidated Farmers Home Administration Act) that interest or other income paid to an insured holder on an insured loan sold out of the Agricultural Credit Insurance Fund is for income tax purposes to be included in gross income of the recipient of the interest. This is to be effective with respect to sales of insured loans by the Federal Government after the date of enactment of this bill.

This bill is favored by the Treasury Department and the Department of Agriculture.

## II. GENERAL STATEMENT

Under present law (sec. 306(a)(1) of the Consolidated Farmers Home Administration Act of 1961 (7 U.S.C. 1926(a)(1))), the Secretary of Agriculture is authorized to make conservation, land use, water, waste disposal, and recreational loans both to governmental units and to private bodies. These loans may be made either directly to the governmental unit or private body or may be made by providing insurance for these loans. Where the insured approach is used, the Farmers Home Administration makes a loan to the unit or body and receives in return a note or bond bearing an interest rate which by law cannot exceed 5 percent. The FHA then resells the note to private lenders, insuring the bond's principal and interest, and pays out of its own funds the cost of any differential between the interest rate at which the insured securities are sold and the 5 percent or lower interest rate specified by the securities which were acquired by FHA.

Direct lending, of course, has an immediate impact, to the full extent of the loan, on Federal budget outlays. Therefore, the volume of loans which could be made directly under the Consolidated Farmers Home Administration Act has been limited. At one time FHA supplemented these direct loans by reselling packages of these loans on an insured basis to private institutional investors. However, it has been held by the Internal Revenue Service that bonds of local governmental units which are acquired by the Farmers Home Administration and then resold on an insured basis continue to be tax exempt in the hands of the lender (Rev. Rul. 58-452). The result of this has been that in recent years FHA has greatly curtailed its program of insuring and reselling loans to local governmental units. This action was taken because the Federal Government concluded that federally guaranteed tax-exempt obligations involve a needlessly costly and inequitable method of financing. Studies by the Treasury Department and the Bureau of the Budget have indicated that it is costly to the Federal Government to use federally insured tax-exempt obligations to finance loans to local governmental units. The studies indicate that while the tax exemption makes it possible to resell the insured loans at a lower interest rate than would otherwise be possible, the loss of tax revenue resulting from the exemption more than offsets the benefits of the lower interest payments.

Additionally, it was concluded that the sale of bonds which are both tax exempt and insured by the Federal Government would give these bonds a competitive advantage over both State and local securities which are tax exempt but not federally insured, and also Federal securities which are subject to Federal income tax. As a result, the sale of such bonds could well have increased interest rates on other bonds, particularly those issued by States and localities and hampered their ability to finance other vital public needs.

H.R. 15979 eliminates these problems by providing that interest on federally insured loans sold out of the Agricultural Credit Insurance Fund after the date of enactment of the bill is for tax purposes to be included in the gross income of the holder of the debt. The interest on these loans is to be taxable for the following reasons. First, the

purchase of the bond from the FHA is viewed to be the equivalent of a contract between the FHA and the bond purchaser to report the interest for Federal income tax purposes. Second, the interest on these loans is interest paid by a Federal agency and not by a State or local governmental unit (even though a portion of the interest payment is, in effect, reimbursed by interest received by the agency on tax-exempt municipal bonds). In view of these factors this does not represent a precedent for the Federal taxation of interest on State or local bonds.

The effect of this action is to make it practical to use federally insured loans to finance credit assistance to local governmental units for the purposes specified in the Consolidated Farmers Home Administration Act. This will be beneficial to the local governments since it should increase substantially the volume of these local governmental loans which the Federal Government will be able to acquire and to resell on an insured basis. At the same time the bill also will reduce the need for appropriations for direct Federal loans for the purposes specified in the Consolidated Farmers Home Administration Act since greater dependence can be placed on loans which are resold to private holders on an insured basis.

The proposed legislation will not increase interest rates to the local communities involved in the federally insured loans since these communities can continue to obtain loans at present low interest rates of not over 5 percent, which are below the current market rates on good quality, long-term, tax-exempt bonds. Moreover, the bill does not in any way interfere with the right of local governments to issue tax-exempt obligations.

### III. CHANGES IN EXISTING LAW

In compliance with subsection (4) of rule XXIX of the Standing Rules of the Senate, changes in existing law made by the bill, as reported, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in *italic*, existing law in which no change is proposed is shown in roman):

#### SECTION 306(a)(1) OF THE CONSOLIDATED FARMERS HOME ADMINISTRATION ACT OF 1961

SEC. 306. (a)(1) The Secretary is also authorized to make or insure loans to associations, including corporations not operated for profit, and public and quasi-public agencies to provide for the application or establishment of soil conservation practices, shifts in land use, the conservation, development, use, and control of water, and the installation or improvement of drainage or waste disposal facilities, and recreational developments, all primarily serving farmers, ranchers, farm tenants, farm laborers, and other rural residents, and to furnish financial assistance or other aid in planning projects for such purposes. *When any loan made for a purpose specified in this paragraph is sold out of the Agricultural Credit Insurance Fund as an insured loan, the interest or other income thereon paid to an insured holder shall be included in gross income for purposes of chapter 1 of the Internal Revenue Code of 1954.*







Calendar No. 1481

91<sup>ST</sup> CONGRESS  
2<sup>D</sup> SESSION

# H. R. 15979

[Report No. 91-1469]

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## IN THE SENATE OF THE UNITED STATES

JULY 7, 1970

Read twice and referred to the Committee on Finance

DECEMBER 16 (legislative day, DECEMBER 15), 1970

Reported by Mr. LONG, without amendment

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## AN ACT

To provide that the interest on certain insured loans sold out of the Agricultural Credit Insurance Fund shall be included in gross income.

1       *Be it enacted by the Senate and House of Representa-*  
2       *tives of the United States of America in Congress assembled,*  
3       That (a) section 306 (a) (1) of the Consolidated Farmers  
4       Home Administration Act of 1961, as amended (7 U.S.C.  
5       1926 (a) (1) ), is amended by adding at the end thereof the  
6       following new sentence: "When any loan made for a purpose  
7       specified in this paragraph is sold out of the Agricultural  
8       Credit Insurance Fund as an insured loan, the interest or  
9       other income thereon paid to an insured holder shall be in-

1 cluded in gross income for purposes of chapter 1 of the  
2 Internal Revenue Code of 1954.”

3 (b) The amendment made by subsection (a) shall  
4 apply to the insured loans sold out of the Agricultural Credit  
5 Insurance Fund after the date of the enactment of this Act.

Passed the House of Representatives July 6, 1970.

Attest:

W. PAT JENNINGS,

*Clerk.*





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**AN ACT**

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To provide that the interest on certain insured loans sold out of the Agricultural Credit Insurance Fund shall be included in gross income.

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JULY 7, 1970

Read twice and referred to the Committee on Finance

DECEMBER 16 (legislative day, DECEMBER 15), 1970

Reported without amendment





# **DIGEST** of Congressional Proceedings

## OF INTEREST TO THE DEPARTMENT OF AGRICULTURE

OFFICE OF BUDGET AND FINANCE  
(FOR INFORMATION ONLY;  
NOT TO BE QUOTED OR CITED)

For actions of December 18, 1970  
91st-2nd; No. 204

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**HIGHLIGHTS:** Senate passed bills providing duty-free entry for reimported articles failing to meet certain requirements, and providing taxable interest on insured loans.

Senate agreed to conference report on disaster relief bill.

Senate appointed conferees on milk, tomato, and potato promotion bill.

House appointed conferees on food stamp bill.

House agreed to amendments to relocation assistance bill.

House agreed to conference report on highway construction bill.

House passed bill continuing Coffee Agreement.

Sen. Dole inserted President's address at Beltsville.

Sen. Cannon criticized grazing fees increase.



SENATE

1. EXPORT - IMPORT BANK. Passed with committee amendment S. 4268 to facilitate greater expansion of U.S. export trade by excluding Export-Import Bank receipts and disbursements for the U.S. budget. pp. S20545-9
2. TOBACCO-QUOTAS. Passed without amendment S.J. Res. 249, to extend the time for proclamation of marketing quotas for burley tobacco for the three marketing years beginning October 1, 1971. p. S20545
3. TARIFFS. Passed without amendment H.R. 9183 to provide duty-free entry for imported articles which are exported and thereafter reimported to the U.S. for failure to meet certain specifications. This bill now goes to the President. p. S20571
4. TAXATION. Passed without amendment H.R. 15979 to provide that the interest on certain insured water and waste facility loans shall be included in the gross income of the insured holder for tax purposes. This bill now goes to the President.. pp. S20571-2
5. DISASTER RELIEF. Agreed to conference report on S. 3619, establishing a comprehensive Federal program for disaster relief and assistance. This bill now goes to the President. pp. S20581-5.
6. AIR QUALITY. Both Houses agreed to the conference report on H.R. 17255 providing the establishment of air quality standards. This bill now goes to the President. pp. S20597-611, H12058-63
7. HOUSING AND URBAN DEVELOPMENT ACT OF 1970. Agreed to conference report on H.R. 19436 to provide for the establishment of a national urban growth policy. pp. S20654-8.
8. MILK, TOMATOES, AND POTATOES. Agreed to conference with the House to provide under S. 1181 authority for promotion programs for milk, tomatoes, and potatoes; conferees appointed. p. S20581.
9. MINING AND MINERALS. Agreed to House amendment and cleared for the President S. 719, to establish a national mining and minerals policy. pp. S20611-3.
10. SOCIAL SECURITY. Continued consideration of H.R. 17550, proposed social security amendments, trade act amendments and family assistance bill. pp. S20618-38; 20659-60.
11. BEET SUGAR. Senator Bennett referred to the 100th anniversary of the U.S. beet sugar industry on November 17. pp. S20693-4.



basis for the current concern with the dutiable status of roasted or sintered manganese ore.

The committee received favorable reports from the Departments of Interior, Commerce, Labor, Treasury, and State. An informative report was received from the U.S. Tariff Commission. No objection to the bill was brought to the attention of the committee.

#### FREE ENTRY OF PEAL OF EIGHT BELLS AND FITTINGS FOR USE OF SMITH COLLEGE, NORTHAMPTON, MASS.

The bill (H.R. 6854) to provide for the free entry of a peal of eight bells and fittings for use of Smith College, Northampton, Mass., was considered, ordered to a third reading, read the third time, and passed.

Mr. MANSFIELD. Mr. President, I ask unanimous consent to have printed in the RECORD an excerpt from the report (No. 91-1466), explaining the purposes of the measure.

There being no objection, the excerpt was ordered to be printed in the RECORD, as follows:

##### PURPOSE

The purpose of H.R. 6854 is to provide for the duty-free entry of a peal of eight bells and fittings for the use of Smith College, Northampton, Mass.

##### GENERAL STATEMENT

H.R. 6854 would authorize and direct the Secretary of the Treasury to admit free of duty a peal of eight bells and fittings for the use of Smith College, Northampton, Mass. The bill further provides that if liquidation of the entry has become final, such entry shall be reliquidated and the appropriate refund of duty made.

The committee is informed that the peal of eight bells for the use of Smith College was entered and was subject to a duty of 9 percent ad valorem under item 725.34 of the tariff schedules. The committee is also informed that the peal of eight bells desired by Smith College was not available from domestic producers. In favorably considering similar bills in the past, the committee has been informed by appropriate agencies of Government, including the Tariff Commission, that such bells are not produced in the United States.

#### AMENDING THE TARIFF SCHEDULES FOR REIMPORTATION

The bill (H.R. 9183) to amend Tariff Schedules of the United States to provide that imported articles which are exported and thereafter reimported to the United States for failure to meet sample or specifications shall, in certain instances, be entered free of duty upon such reimportation was considered, ordered to a third reading, read the third time, and passed.

Mr. MANSFIELD. Mr. President, I ask unanimous consent to have printed in the RECORD an excerpt from the report (No. 91-1467), explaining the purposes of the measure.

There being no objection, the excerpt was ordered to be printed in the RECORD, as follows:

##### PURPOSE

The purpose of H.R. 9183, is to provide that imported articles on which the duty has been paid and which are subsequently exported, but reimported for failure to meet sample of specifications abroad shall be ac-

corded duty-free treatment in certain instances.

##### GENERAL STATEMENT

Insofar as articles exported and returned are concerned the Tariff Schedules of the United States provide that in the absence of a specific provision to the contrary, the tariff status of an article is not affected by the fact it was previously imported into the customs territory of the United States and cleared through customs whether or not duty was paid upon such previous importation.

There is no specific provision for imported articles, on which duties have been paid, which are subsequently exported, and returned to the United States due to failure of the articles to meet sample or specifications in the foreign country. The committee was informed that in at least one instance a shipment of articles was imported and the normal duty was paid. Thereafter the articles were sold and exported to a customer in a foreign country, who subsequently rejected them for the reason that they did not conform to specification. Upon return to the United States, the articles were again subject to duty under U.S. tariff law. The committee is of the opinion that the law should be changed, as proposed in H.R. 9183, to prevent a recurrence of double liability for duty payment on imported articles under similar circumstances.

For this purpose, the bill would insert a new duty-free tariff classification provision, item 801.10, in schedule 8 of the Tariff Schedules of the United States. This provision would permit duty-free entry for articles, previously imported, with respect to which the duty was paid upon such previous importation, under certain conditions. Such articles could be entered free of duty if: (1) exported within 3 years after the date of such previous importation; (2) reimported without having been advanced in value or improved in condition by any process of manufacture or other means while abroad; (3) reimported for the reason that such articles do not conform to sample or specifications, and (4) reimported by or for the account of persons who imported them into and exported them from, the United States.

With respect to condition (2) above, the bill as originally introduced would not have permitted the duty-free treatment if the articles had been advanced in value or improved in condition "at any time after such previous importation and before reimportation." At the suggestion of the Department of Commerce, the committee amended the bill so as to disallow duty-free treatment if the articles were advanced in value or improved in condition "while abroad." This would permit such duty-free treatment if advancement in value or improvement in condition of the articles takes place in the United States prior to exportation of the articles.

The committee also provided with respect to the effective date that the new provision would apply only to articles imported after the date of enactment which had not been previously imported before such date.

Favorable reports on H.R. 9183 were received from the Departments of Commerce, State, Treasury, Labor, and Agriculture, and the Office of Special Representative for Trade Negotiations. An informative report was received from the U.S. Tariff Commission.

#### BILL PASSED OVER

The bill (H.R. 10517) to amend certain provisions of the Internal Revenue Code of 1954 relating to distilled spirits, and for other purposes, was announced as next in order.

Mr. MANSFIELD. Over.

The PRESIDING OFFICER. The bill will be passed over.

#### AGRICULTURAL CREDIT INSURANCE FUND LOANS

The bill (H.R. 15979) to provide that the interest on certain insured loans sold out of the Agricultural Credit Insurance Fund shall be included in gross income was considered, ordered to a third reading, read the third time, and passed.

Mr. MANSFIELD. Mr. President, I ask unanimous consent to have printed in the RECORD an excerpt from the report (No. 91-1469), explaining the purposes of the measure.

There being no objection, the excerpt was ordered to be printed in the RECORD, as follows:

##### I. SUMMARY

The Consolidated Farmers Home Administration Act of 1961 authorizes the Farmers Home Administration to make loans both to local governmental units and to private bodies for such purposes as conservation, land use, water, etc., and to resell this debt to private parties as federally insured loans. The Internal Revenue Service has ruled that in those cases where the security originates with a local governmental unit the interest or other income paid on it continues to be exempt from Federal tax even after it is resold as a loan insured by the Federal Government. Because the Federal Government has concluded that the exemption of interest on these loans is costly and has inequitable results, it in recent years has been reluctant to make and then resell these loans on an insured basis to provide credit assistance to local governmental units. H.R. 15979 overcomes this problem by providing (in an amendment to the Consolidated Farmers Home Administration Act) that interest or other income paid to an insured holder on an insured loan sold out of the Agricultural Credit Insurance Fund is for income tax purposes to be included in gross income of the recipient of the interest. This is to be effective with respect to sales of insured loans by the Federal Government after the date of enactment of this bill.

This bill is favored by the Treasury Department and the Department of Agriculture.

##### II. GENERAL STATEMENT

Under present law (sec. 306(a)(1) of the Consolidated Farmers Home Administration Act of 1961 (7 U.S.C. 1926(a)(1))), the Secretary of Agriculture is authorized to make conservation, land use, water, waste disposal, and recreational loans both to governmental units and to private bodies. These loans may be made either directly to the governmental unit or private body or may be made by providing insurance for these loans. Where the insured approach is used, the Farmers Home Administration makes a loan to the unit or body and receives in return a note or bond bearing an interest rate which by law cannot exceed 5 per centum. The FHA then resells the note to private lenders, insuring the bond's principal and interest, and pays out of its own funds the cost of any differential between the interest rate at which the insured securities are sold and the 5 per centum or lower interest rate specified by the securities which were acquired by FHA.

Direct lending, of course, has an immediate impact, to the full extent of the loan, on Federal budget outlays. Therefore, the volume of loans which could be made directly under the Consolidated Farmers Home Administration Act has been limited. At one time FHA supplemented these direct loans by reselling packages of these loans on an insured basis to private institutional investors. However, it has been held by the Internal Revenue Service that bonds of local governmental units which are acquired by the Farmers Home Administration and then resold on an insured basis continue to be tax exempt in the hand of the lender (Rev. Rul. 58-452). The result of this has been that in



recent years FHA has greatly curtailed its program of insuring and reselling loans to local governmental units. This action was taken because the Federal Government concluded that federally guaranteed tax-exempt obligations involve a needlessly costly and inequitable method of financing. Studies by the Treasury Department and the Bureau of the Budget have indicated that it is costly to the Federal Government to use federally insured tax-exempt obligations to finance loans to local governmental units. The studies indicate that while the tax exemption makes it possible to resell the insured loans at a lower interest rate than would otherwise be possible, the loss of tax revenue resulting from the exemption more than offsets the benefits of the lower interest payments.

Additionally, it was concluded that the sale of bonds which are both tax exempt and insured by the Federal Government would give these bonds a competitive advantage over both State and local securities which are tax exempt but not federally insured, and also Federal securities which are subject to Federal income tax. As a result, the sale of such bonds could well have increased interest rates on other bonds, particularly those issued by States and localities and hampered their ability to finance other vital public needs.

H.R. 15979 eliminates these problems by providing that interest on federally insured loans sold out of the Agricultural Credit Insurance Fund after the date of enactment of the bill is for tax purposes to be included in the gross income of the holder of the debt. The interest on these loans is to be taxable for the following reasons. First, the purchase of the bond from the FHA is viewed to be the equivalent of a contract between the FHA and the bond purchaser to report the interest for Federal income tax purposes. Second, the interest on these loans is interest paid by a Federal agency and not by a State or local governmental unit (even though a portion of the interest payment is, in effect, reimbursed by interest received by the agency on tax-exempt municipal bonds). In view of these factors this does not represent a precedent for the Federal taxation of interest on State or local bonds.

The effect of this action is to make it practical to use federally insured loans to finance credit assistance to local governmental units for the purposes specified in the Consolidated Farmers Home Administration Act. This will be beneficial to the local governments since it should increase substantially the volume of these local governmental loans which the Federal Government will be able to acquire and to resell on an insured basis. At the same time the bill also will reduce the need for appropriations for direct Federal loans for the purposes specified in the Consolidated Farmers Home Administration Act since greater dependence can be placed on loans which are resold to private holders on an insured basis.

The proposed legislation will not increase interest rates to the local communities involved in the federally insured loans since these communities can continue to obtain loans at present low interest rates of not over 5 percent, which are below the current market rates on good quality, long-term, tax-exempt bonds. Moreover, the bill does not in any way interfere with the right of local governments to issue tax-exempt obligations.

#### BILL PASSED OVER

The bill (H.R. 16506), to amend the Internal Revenue Code of 1954 to clarify the applicability of the exemption from income taxation of cemetery corporations, was announced as next in order.

Mr. MANSFIELD. Over, Mr. President. The PRESIDING OFFICER. The bill will be passed over.

#### SUSPENSION OF DUTY ON ELECTRODES FOR USE IN PRODUCING ALUMINUM

The bill (H.R. 16940) to extend until December 31, 1972, the suspension of duty on electrodes for use in producing aluminum was considered, ordered to a third reading, read the third time, and passed.

Mr. MANSFIELD. Mr. President, I ask unanimous consent to have printed in the RECORD an excerpt from the report (No. 91-1471), explaining the purposes of the measure.

There being no objection, the excerpt was ordered to be printed in the RECORD, as follows:

##### PURPOSE

The purpose of H.R. 16940 is to continue until the close of December 31, 1972, the suspension of duties on electrodes imported for use in producing aluminum.

##### GENERAL STATEMENT

Under the permanent provisions of the Tariff Schedules of the United States, electrodes of the kind covered by the bill are currently dutiable under item 517.61 at 8½ percent ad valorem, the third stage of a five-stage reduction from 12½ to 6 percent ad valorem agreed to in the Kennedy round. However, the duty on electrodes imported for use in producing aluminum was suspended from October 7, 1965, under Public Law 89-241, until July 15, 1966, was further suspended by Public Law 89-434 until July 15, 1968; to July 15, 1969, by Public Law 90-571; and to the close of December 31, 1970 by Public Law 91-26.

The committee is informed that the electrodes of the type covered by the bill usually are manufactured by aluminum companies themselves at the site where they are to be used in the electrolysis of alumina into aluminum. These electrodes generally of carbon or graphite are consumed in great quantities in the electrolysis process. A number of small aluminum plants have been importing electrodes due to an insufficient volume of aluminum production to permit efficient manufacture of electrodes at their plants, and due to the difficulty of purchasing such electrodes commercially from domestic producers.

The committee has received no information which would indicate opposition to the legislation, and the executive department had no objection to its enactment.

The committee believes that an extension of the suspension of duty on electrodes imported for use in producing aluminum for a 2-year period as provided in H.R. 16940 is warranted.

#### REMOVAL OF PROHIBITIONS AGAINST IMPORTING, TRANSPORTING, AND MAILING ARTICLES FOR PREVENTING CONCEPTION

The Senate proceeded to consider the bill (H.R. 4605) to amend the Tariff Act of 1930 and the United States Code to remove the prohibitions against importing, transporting, and mailing in the United States mails, articles for preventing conception, which had been reported from the Committee on Finance with amendments on page 2, after line 7, strike out:

SEC. 5. (a) Section 4001 of title 39 of the United States Code, relating to nonmailable matter, is amended by adding at the end thereof the following new subsection: "(d) (1) Every article or thing which is unsolicited by the addressee and which is designed, adapted, or intended for preventing conception (except unsolicited samples

thereof mailed to a manufacturer thereof, a dealer therein, a licensed physician or surgeon, or a nurse, pharmacist, druggist, hospital, or clinic) is nonmailable matter, shall not be carried or delivered by mail, and shall be disposed of as the Postmaster General directs.

"(2) Every advertisement of any article or thing which is designed, adapted, or intended for preventing conception is nonmailable matter, shall not be carried or delivered by mail, and shall be disposed of as the Postmaster General directs if the advertisement is unsolicited, unless the advertisement—

"(A) is mailed to a manufacturer of such articles or things, a dealer therein, a licensed physician or surgeon, or a nurse, pharmacist, druggist, hospital, or clinic; or

"(B) accompanies in the same parcel any such article or thing mailed under conditions permitted under paragraph (1) of this subsection

An advertisement shall not be deemed to be unsolicited for the purposes of this paragraph if it is contained in a publication for which the addressee has paid or promised to pay a consideration or which he has otherwise indicated he desires to receive."

(b) The eighth paragraph of section 1461 of title 18 of the United States Code is amended by inserting "or section 4001(d) of title 39" after "this section".

SEC. 6. The amendments made by this Act shall take effect on the day after the date of the enactment of this Act.

And, in lieu thereof, insert:

SEC. 5. (a) Section 4001 of title 39 of the United States Code, relating to nonmailable matter, is amended by adding at the end thereof the following new subsection:

"(d) (1) Any matter which is unsolicited by the addressee and which is designed, adapted, or intended for preventing conception (except unsolicited samples thereof mailed to a manufacturer thereof, a dealer therein, a licensed physician or surgeon, or a nurse, pharmacist, druggist, hospital, or clinic) is nonmailable matter, shall not be carried or delivered by mail, and shall be disposed of as the Postmaster General directs.

"(2) Any unsolicited advertisement of matter which is designed, adapted, or intended for preventing conception is nonmailable matter, shall not be carried or delivered by mail, and shall be disposed of as the Postmaster General directs unless the advertisement—

"(A) is mailed to a manufacturer of such matter, a dealer therein, a licensed physician or surgeon, or a nurse, pharmacist, druggist, hospital, or clinic; or

"(B) accompanies in the same parcel any unsolicited sample excepted by paragraph (1) of this subsection.

An advertisement shall not be deemed to be unsolicited for the purposes of this paragraph if it is contained in a publication for which the addressee has paid or promised to pay a consideration or which he has otherwise indicated he desires to receive."

(b) The eighth paragraph of section 1461 of title 18 of the United States Code is amended by inserting "or section 4001(d) of title 39" after "this section".

On page 4, after line 21, insert a new section as follows:

SEC. 6. Effective on the date that the Board of Governors of the United States Postal Service establishes as the effective date for section 3001 of title 39 of the United States Code, as enacted by the Postal Reorganization Act—

(1) such section 3001 is amended—  
(A) by redesignating subsection (e) as (f); and

(B) by inserting after subsection (d) the following new subsection:

"(e) (1) Any matter which is unsolicited by the addressee and which is designed,









Public Law 91-617  
91st Congress, H. R. 15979  
December 31, 1970

## An Act

84 STAT. 1855

To provide that the interest on certain insured loans sold out of the Agricultural Credit Insurance Fund shall be included in gross income.

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled*, That (a) section 306(a)(1) of the Consolidated Farmers Home Administration Act of 1961, as amended (7 U.S.C. 1926(a)(1)), is amended by adding at the end thereof the following new sentence: "When any loan made for a purpose specified in this paragraph is sold out of the Agricultural Credit Insurance Fund as an insured loan, the interest or other income thereon paid to an insured holder shall be included in gross income for purposes of chapter 1 of the Internal Revenue Code of 1954."

(b) The amendment made by subsection (a) shall apply to the insured loans sold out of the Agricultural Credit Insurance Fund after the date of the enactment of this Act.

Approved December 31, 1970.

Agricultural  
Credit Insur-  
ance Fund.  
Insured loans,  
interest; tax  
treatment.  
79 Stat. 931.

68A Stat. 3;  
83 Stat. 678.  
26 USC 1.

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### LEGISLATIVE HISTORY:

HOUSE REPORT No. 91-1112 (Comm. on Ways and Means).

SENATE REPORT No. 91-1469 (Comm. on Finance).

CONGRESSIONAL RECORD, Vol. 116 (1970):

July 6, considered and passed House.

Dec. 18, considered and passed Senate.

